Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing an Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92

COMMENTS
of the
OKLAHOMA TELEPHONE ASSOCIATION

I. INTRODUCTION

A. The Oklahoma Telephone Association (OTA) has thirty-six (36) member Rural Local Exchange Carriers (RLECs) and approximately 130 Associate Member companies which provide products and services to the member companies. The OTA member companies are located in predominately the most rural areas of Oklahoma and serve approximately 142,900 access lines, or about fifteen (15) percent of the access lines in the state. Their service territories account for approximately fifty-six (56) percent of the geographic area of the state. These companies range in size from 111 access lines to about 46,000 access lines. Three of the member companies are owned by the TDS Corporation and one is a subsidiary of Fairpoint Corporation. The remaining thirty-two (32) companies are either private family-owned companies or cooperatives.

B. The OTA members have been genuinely concerned about numerous provisions of the National Broadband Plan (NBP or Plan) since its release in 2010. Unfortunately, as more information has become available about the implementation of the NBP, the concern has grown. Analyses of the proposed plan have indicated that between 45 to 75 percent of the current revenue streams of individual companies may be lost. Needless to say, that would put almost any company at great risk of going out of business. The member companies of OTA not only provide essential communication services to many of the rural areas of Oklahoma, but also provide much of the local leadership in the community, both financially and personally. They serve on the local school boards, hospital boards, bank boards, and fulfill many other civic roles throughout the state.

II. DISCUSSION

A. An estimate of the impact of the NBP on both the local communities in Oklahoma served by the OTA member companies, as well as the state as a whole, has been performed by the Steven C. Agee Economic Research and Policy Institute – Oklahoma City University. A summary of the study, titled "Estimating the Impacts of the National Broadband Plan on Local Exchange Carriers in Rural Oklahoma" (Oklahoma Economic Impact Study) is included as Attachment A to this filing. The study estimates the RLECs will loose over 1,000 employees over the five-year period from 2012 – 2016 with direct losses of nearly $50 million in wages. Based on the RIMS II employment multiplier, an additional 2,000 employees will be impacted statewide resulting in lost wages of over $123 million. These lost wages would translate into a reduction of $2.8 million in statewide sales tax collections. The study also estimates a loss of over $1.5 million in property tax revenues to local governments over the 5-year period. In addition, it is also estimated that the state of Oklahoma would lose $6.5 million in personal income tax collections for the five-year period.

B. After careful consideration, the OTA concurred in the RLEC Plan filed with the FCC in April, 2011. The OTA thinks the RLEC Plan made the appropriate recommendations to implement the NBP to obtain the stated goals of the Plan, while insuring the viability of the RLECs. The OTA member RLECs have already made great strides to provide the type of broadband services proposed in the Plan. In the areas served by the OTA member companies, many provide over 90 % of their subscribers with access to high speed broadband service.

C. The OTA continues to support the RLEC Plan, now as modified and included in the consensus framework filed by the National Telecommunications Cooperative Association (NTCA), the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), the Western Telecommunications Alliance (WTA), and six large Price Cap Carriers on July 29, 2011. While the OTA certainly would have preferred to see the April 2011 RLEC Plan remain unchanged, the OTA supports the consensus framework approach as it presents a reasonable path toward sustainable broadband and regulatory certainty.

D. Several of our companies have committed to long term loans in order to reach the level of broadband and other services currently available in their service areas. The NBP would definitely change the rules of the game, and from a broadband perspective, we haven't even reached half-time yet! This concern was made crystal clear in the recent Rural Utilities Service (RUS) filing with the FCC. In that filing, RUS demonstrated the estimated money that could be lost in failed loans if the NBP is implemented as currently proposed. With the current federal budget crisis, that would indeed seem to be an untenable position for any federal agency.

E. Our companies committed to long term loans to provide needed services to the rural communities they serve. They made these commitments with the understanding that the current levels of support, which have been in place for several decades, would continue to be available to insure these services remain available to those who need them. Under the current proposals, those support levels would be extinguished and would jeopardize the very existence of several RLECs. The impact on the companies, their employees, the local communities they serve, and the state of Oklahoma as a whole, are demonstrated in the attached Oklahoma Economic Impact Study. The consensus approach, as recommended, would sustain the RLECs ability to repay the long term loans to the RUS and other financial institutions who have invested in rural Oklahoma. Without the FCC's adoption of the consensus recommendation, those loans will be in jeopardy.

F. The consensus framework was reached through very long and difficult negotiations. It achieves a balance of monetary assurance, although less than originally recommended in the RLEC Plan, with provisioning of the NBP desired services to customers in rural areas. Both of these items are necessary as we transition toward the broadband era.

G. While the consensus framework accomplishes many of the goals of the NBP, it is a delicate balance of many varied interests. If the FCC changes or modifies any of the included recommendations, the total balance of the agreement could be in jeopardy. Since this recommendation was developed by a broad range of telecommunications industry participants, many of which have been in business for over 100 years, it would seem reasonable to conclude they have a great deal of expertise in resolving the very complicated and intricate details of implementing a plan such as the NBP. Therefore, the FCC will hopefully give the consensus framework added weight due to the base of knowledge that led to its development. As stated previously, putting the RLECs at risk will also put many of the rural communities of Oklahoma at great risk of surviving.

II. CONCLUSION

The OTA members have been genuinely concerned about numerous provisions of the NBP from the beginning. Analyses of the original FCC NPRM have indicated that between 45 to 75 percent of the current revenue streams of individual companies may be lost. The OTA has worked with Oklahoma City University to perform an Oklahoma Economic Impact Study to demonstrate the adverse affects of the NBP on the Oklahoma RLECs, their customers, the rural communities in Oklahoma, and the state of Oklahoma. Please see Attachment A.

The OTA continues to support the RLEC Plan, now as modified and included in the consensus framework. While the OTA certainly would have preferred to see the RLEC Plan remain unchanged, it supports the consensus framework approach as it presents a reasonable path toward sustainable broadband and regulatory certainty. It provides the best opportunity for successful implementation of the NBP to bring its anticipated benefits to the rural customers in Oklahoma.

/S/ Larry D. Jones
President
Oklahoma Telephone Association

ATTACHMENT A

Steven C. Agee
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Estimating the Impacts of the National Broadband Plan on Local Exchange Carriers in Rural Oklahoma

July 11, 2011

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Introduction

In the 20th century, the focus of universal service was providing voice communications capability to all Americans, rural and urban. To ensure that all Americans had access to voice communication services, the federal government in partnership with state governments provided Universal Service Funds (USF) to Rural Local Exchange Carriers (RLECs).

In the first decade of the 21st century, the needs of rural customers, indeed all customers, changed as the proliferation of data began to saturate telecommunications networks. During this time, wireless telecommunications technology matured and the use of "land-line" telephones began to decline. This changing landscape created unique challenges for RLECs to meet the evolving needs of their customers while continuing to provide regulated voice service. Without specific federal direction, a patchwork of broadband capability began to crop up as many RLECs proceeded to invest in broadband infrastructure on their own.

In early 2009, the U.S. Congress directed the Federal Communications Commission (FCC) to develop a National Broadband Plan (NBP) to ensure *every American* has access to broadband capability. According to the plan, up to $15.5 billion would be shifted from the existing USF funded programs to the newly created Connect America Fund (CAF) to support the deployment of broadband services in underserved high-cost areas.

The Economic and Research Policy Institute at Oklahoma City University was asked to assess the impact of these proposed changes on Oklahoma RLECs. The following sections detail our estimates of the aggregate statewide impacts on Oklahoma carriers.

Methodology

ERPI personnel created an input-output model using RIMS II multipliers obtained from the Bureau of Economic Analysis aggregated for the state of Oklahoma. An input-output or IO model is created by taking a snapshot of industry and trade linkages within a local economy. The IO snapshot reveals the economic flows between households, firms and governments that occur in a given period of time (typically one year). From these linkages, multipliers are calculated that assess the continued impact of initial economic expenditures. These extended impacts are often called indirect and induced impacts.

Indirect expenditures occur as supporting industries pay wages and purchase materials required to produce intermediate goods for the final producer. Induced expenditures occur when workers spend their incomes in the local economy on additional goods and services. Initial expenditures may provoke many rounds of additional expenditures, indirect and induced, similar to the way that ripples extend from a stone that is dropped in water.

Economic Impacts

Of the forty RLECs in Oklahoma, twenty-seven provided data for the analysis. The estimates provided are for all forty RLECs based on behavior from the twenty-seven RLEC sample. The impacts are derived primarily from the estimated loss of USF revenue. The estimated employment impacts are given in Table 1.

Based on USF loss projections, we estimate that Oklahoma RLECs will lose over 1,000 direct employees over the five-year period from 2012 – 2016 with direct losses of nearly $50 million in wages. Based on the RIMS II employment multiplier (2.977), an additional 2 thousand employees will be impacted statewide resulting in lost wages of over $123 million.

Table 1. Estimated Employment and Wage Impacts[1]

Employment and Wage Losses	Direct		Direct + Indirect/Induced	
	Change in Employment	Change in Wages[2]	Change in Employment	Change in Wages[3]
2012	113.09	$5,299,943.37	336.70	$13,626,947.45
2013	176.81	$8,286,639.45	526.44	$21,306,189.98
2014	237.80	$11,145,000.77	708.03	$28,655,464.64
2015	247.05	$11,578,161.19	735.55	$29,769,184.89
2016	251.08	$11,767,316.63	747.57	$30,255,531.85
Total All Years	1,025.83	$48,077,061.41	3,054.30	$123,613,318.80

Fiscal Impacts

[1] All wage data is based on 2010 data supplied by Oklahoma RLECs. Constant wages are assumed.

[2] Based on the average wage for RLEC employees in Oklahoma of $46,866.59.

[3] Based on the 2009 average wage in Oklahoma of $37,238 per annum. Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages

Fiscal impacts come from three primary sources: property, sales and income tax losses due to declining employment in the telecom industry. Fiscal Impacts are reported in Table 2. Property taxes are paid locally so the impacts will be felt primarily at the local level. An effective property tax rate of 1.53% was calculated based on the ratio of per capita property tax payments to per capita income in 2008[4]. We assumed that 100% of the employees reside within the state and that 70% are homeowners. Additionally, with the loss of employment we assumed that 50% of the residents would leave the state. Based on the reduction in employment, we estimate local governments will lose over $1.5 million in property tax revenues over the 5-year period.

Table 2. Fiscal Impacts

Year	Wage Impacts	Property Tax Collections	Retail Sales Tax	OK Personal Inc. Tax
2012	$13,626,947.45	$170,664.14	$306,606.32	$715,414.74
2013	$21,306,189.98	$266,839.11	$479,389.27	$1,118,574.97
2014	$28,655,464.64	$358,881.56	$644,747.95	$1,504,411.89
2015	$29,769,184.89	$372,829.81	$669,806.66	$1,562,882.21
2016	$30,255,531.85	$378,920.83	$680,749.47	$1,588,415.42
Total All Years	$123,613,318.80	$1,548,135.46	$2,781,299.67	$6,489,699.24

The state of Oklahoma employs a 4.5% sales tax on local purchases. Assuming that 50% of income is spent on local goods and services, the direct loss of $123.6 million in wages would lead to a reduction of $2.8 million in statewide sales tax collections.[5]

Personal Income Tax estimates were calculated based on the gross wages of telecom employees for direct losses and Oklahoma mean wages for indirect and induced losses. It is estimated that the state of Oklahoma would lose $6.5 million in personal income tax collections for the five-year period.

Conclusion

[4] See Taxfoundation.org.

[5] This does not include additional revenues that are lost due to local sales taxes which were not estimated due to the variability of rates across localities.

While access to broadband services is a worthy goal for all citizens, proceeding under the current National Broadband Plan may prove to be costly to existing companies and state and local governments. In this study we discussed a few of the potential impacts including employment, wages and fiscal losses. However, there are other potential losses that aren't quantified within this report. Many local carriers proceeded with significant private investment in broadband services for their subscribers before the NBP was even considered. Awarding broadband deployment contracts to new firms will result in significant loss to these carriers who undertook this investment and may signal future firms to delay local infrastructure investment.